

AGRICULTURAL EQUIPMENT AUSTRALIA

(Based on exchange rate USD \$1 = AUD \$ 1.4)

PREPARED BY:

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SUMMARY:

Australia is one of the world's more sophisticated farming economies, with a large amount of historical wealth being generated by farm activities. The central role of agriculture continues today with agricultural commodities forming significant portions of Australia's GDP and some of its premiere exports.

Despite its place as a world-best agricultural producer the Australian agricultural industry is beset by a number of challenges. These include decreasing availability of farm labor supply, increased export competition from low cost labor countries, a prolonged drought affecting a large portion of the country, strict quarantine regulations and ongoing pressure to farm in more environmentally sustainable ways, whilst maintaining production efficiency.

Australia is responding to these challenges by adopting world-best farming practices, many of which it has been responsible for developing. The US has been a key partner in many of Australia's agricultural pursuits, with many similarities between the styles of agricultural production in both countries. This said Australian farmers are particularly selective when purchasing farming machinery, currently sourcing from a number of other countries including Germany, Netherlands, United Kingdom, Italy, Canada and New Zealand.

This report focuses on agricultural equipment for the Australian market. Such equipment includes cutting equipment, dryers, sprayers, plows & spreaders, harvesting equipment, dairy machinery, agricultural production machinery and tractors.

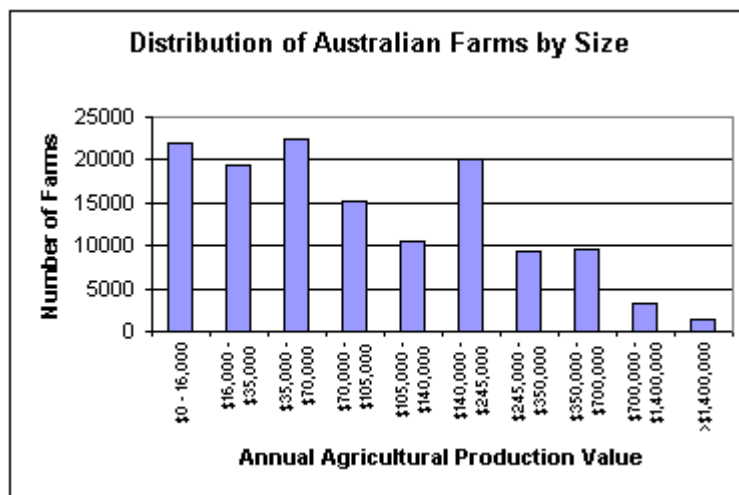
MARKET OVERVIEW:

- Agriculture is a key element of Australia's economy and makes up around 3.5% of GDP. The gross value of agricultural products produced in Australia in 2003 was US \$23.5 billion.
- Key agricultural industries include sheep, cattle, poultry, dairy, wheat, sugarcane and fruit.
- Around 59% of Australia's land area is used for some form of agricultural activity. Measuring around 1.7 million square miles this represents an area about half the size of the United States.

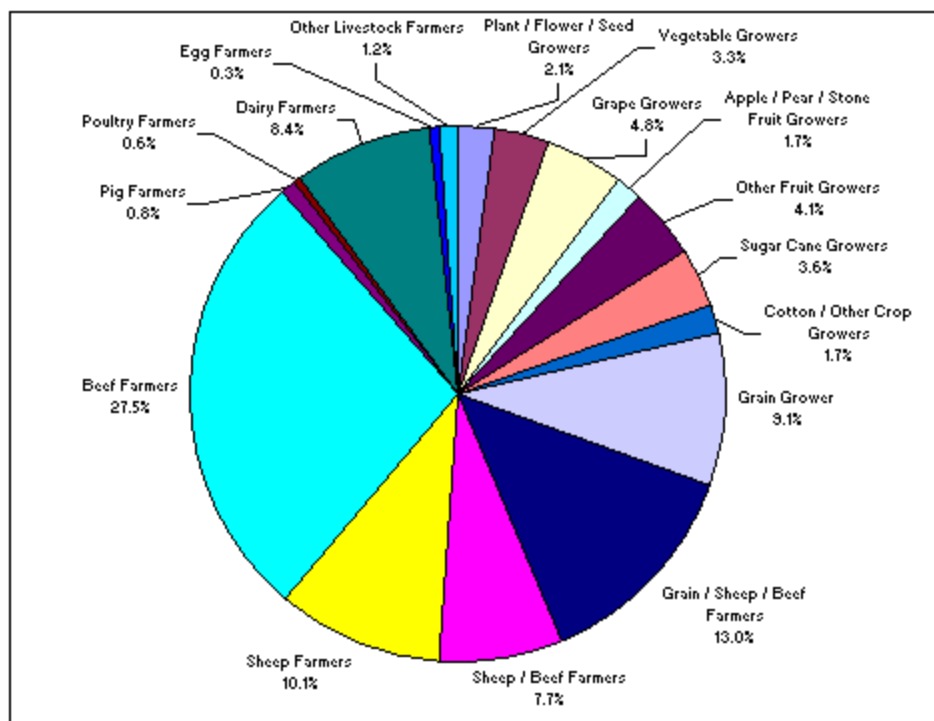
- Agricultural activities employ around 320,000 people and result in annual exports with a value of around US \$18 billion. Large trading partners include Japan, China, Middle East and the US.
- Given its island location the Australian agriculture industry is by world standards considered disease and pest free.
- In 2003 the three largest agriculture exports include beef (US \$2.9 billion), wheat (US \$2.2 billion) and wool (US \$1.6 billion)

INDUSTRY STATISTICS:

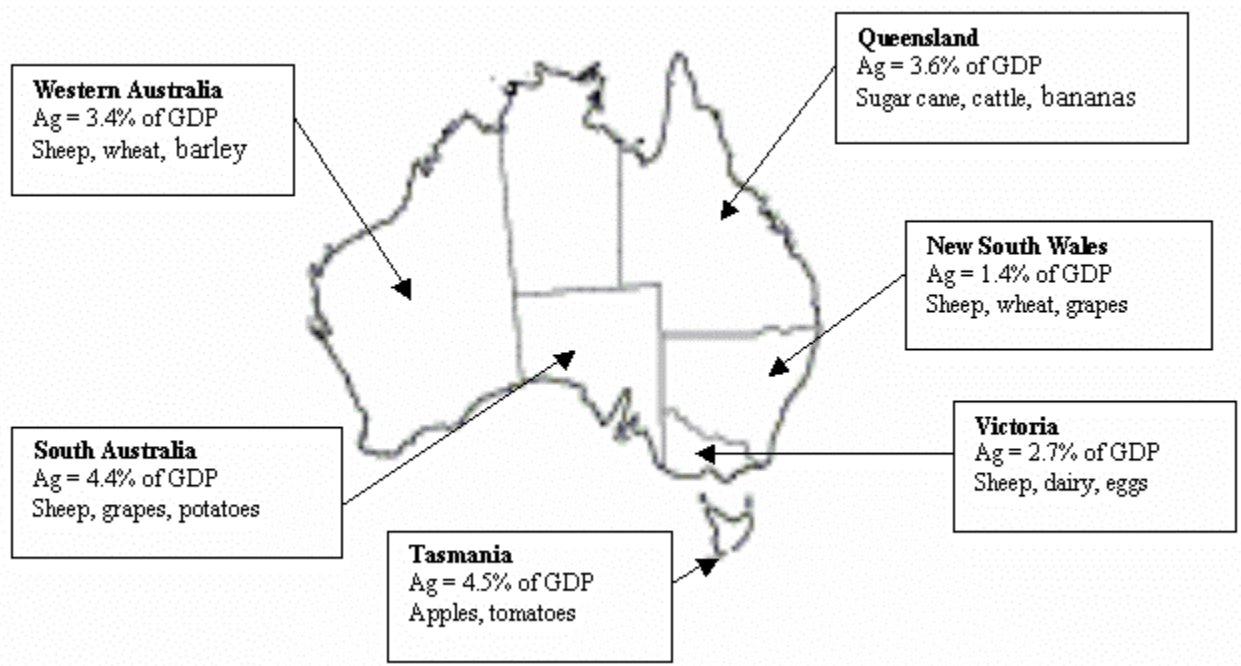
- There are an estimated 130,000 Australian farms with some form of agricultural activity. Farms range in size from those with agricultural production values of a few thousand dollars to around 5000 farms with annual production values of more than US \$700,000



- Agricultural activities cover a wide range of crops and animal products, with the distribution of major production types given below.



- Agricultural activities are often regionally based in particular Australia states. For several of Australia's states with smaller economies, agriculture is considered particularly important.



U.S. POSITION:

- According to US Census Bureau data, in 2003/04 Australia imported around US \$369,632,000 of agricultural machinery from the US, which represents 10.5% of all agricultural equipment exported. Australia is second only to Canada in terms of export market size for this kind of equipment.
- Australian import statistics for 2003 estimate total agricultural imports at around US \$1,030,100,000 with an estimated 46% of these imports coming from the US.
- US agricultural equipment suppliers dominate a number of the major equipment categories including tractors (43% share), sprayers (69%), harvesting equipment (61%) and production equipment (38%).
- Many of the larger US agricultural equipment companies have established sizeable operations and distribution networks about the country, and have been in business in Australia for 50+ years.
- US equipment is recognized for its quality and durability, but is also noted for being reasonably expensive compared to other alternative. Some of the more established US players are able to use their strong brand names to offset the effects of high price, but this may not apply to new US entrants.

Some of the U.S. agriculture businesses with Australian operations include:

AGCO Corporation	Alpha Inc	Cargill Incorporated
Case Corporation Inc	Caterpillar Inc	Chiquita Brands International

Crompton Corporation	Deere & Company	Dow Agrosciences
FMC Chicago	JR Simplot Company	Monsanto Company
Rainbird	The Scotts Company	Toro

INDUSTRY COMPETITION:

- As indicated earlier Australia farmers and agriculturists keep abreast of international developments in agricultural equipment and machinery.
- Given its importance to the economy Australia has established a large number of agricultural research facilities and universities with dedicated agricultural faculties. A significant amount of equipment and process development and innovation is developed through these facilities.
- Whilst not having the heavier equipment manufacturing (i.e. harvesters, tractors) local agriculture companies occupy many segments of the industry (e.g. spraying, farm management systems)
- Aside from internal development the Australian agricultural industry has been able to attract significant amounts of foreign equipment such that estimates of imported equipment use are as high as 85% of total equipment.
- Many segments of equipment have a number of supplier alternatives with products ranging in both price and quality to cater for all segments of the market. One such segment is the tractor segment where around 16 manufacturers vie for market position.
- Despite the above comments, the most likely competitors to incoming US manufacturers of agricultural equipment in a number of areas are other US equipment manufacturers.
- Aside from the US import market share of 46%, the following countries have significant shares of the import market Germany (12%), Netherlands (6%), United Kingdom (6%), Italy (5%), Canada (4%) and New Zealand (3%)

	Cutting Instruments (1)	Dryers (2)	Sprayers (3)	Soil Related Equipment (4)	Harvesters (5)	Dairy Equipment (6)	Fruit Crushing	Misc Production Equipment (7)	Grain Equipment (8)	Tractors
Canada		0.1	24.0	13.6			2.2			
China			2.1							
Denmark								1.0		
France	0.4		1.6	2.3	13.7		2.5			
Germany	0.3	2.4			18.6	0.7		9.8	0.8	90.8
Italy	0.4		2.3	8.0		0.8	2.3			35.5
Netherlands								2.5	0.3	60.6
New Zealand				4.1	17.8	2.6	0.6	4.5		
Sweden						1.8				
Switzerland									0.8	
Taiwan			3.2							
United Kingdom	0.3	0.1								56.9
United States	1.9	0.3	34.2	7.2	156.4	0.8	0.3	17.4	1.5	245.2
Total Imports	4.4	2.9	49.4	56.7	258.2	8.6	6.8	50.8	5.9	574.8

Imports are listed in US \$ and are for the period Jan - Dec 2003

Shaded areas indicate countries with highest level of exports in a particular segment

Notes

- 1 Covers HS Code 8203.405000 - knives and cutting blades for agricultural, horticultural uses
- 2 Includes HS Code 8419.310012 - dryers for agricultural products, but not parts for these dryers aggregated under HS Code 8419.509.000
- 3 Includes HS Code 8424.810 - agricultural or horticultural sprayers, but not parts for this equipment aggregated under HS Code 8424.900
- 4 Plows, harrows, seeders, planters, fertilizer spreaders and associated parts - HS Codes 8432.100 - 8432.900
- 5 Mowers, balers, combine harvesters, threshers, ag cleaning equipment and associated parts - HS Codes 8433.110 - 8433.500
- 6 Includes milking and dairy equipment and parts w/ 75% of imports being for parts
- 7 Includes HS Codes 8435.100 - 8435.900 - misc. agricultural equipment for poultry and other specialty sectors, but does not include HS Code 8435.201.0+ - tree lifting equipment
- 8 Machinery for cleaning, milling, sorting grains and cereals - HS Codes 8437.100 - 8437.500

KEY INDUSTRY CONCERNS/DRIVERS:

- One of the key trends of the Australian agriculture industry is the decreasing number and increasing size of farms. There are two key drivers affecting this trend – an increasing push to reduce overheads by spreading equipment costs over larger areas and the reduction of available farm labor.
- Australian farming practices are continually looking for new innovations that can further drive productivity and hence profitability. One example of this is the adoption of GPS technology to reduce inefficient application of fertilizers and reducing the growing area affected by tire compaction.
- Water efficient farming technologies and delivery systems are becoming more important with some areas in sustained drought for more than 5 years.
- A heightened community awareness of environmental degradation due to farming including poor water use, the long-term effects of pesticides & control elements and increased soil salinity is a prime concern. Farmers are looking for ways to reduce their impact whilst maintaining yields.
- Many of Australia's agricultural products are commodities traded on the world markets. As such the fortunes of local farmers and their capacity to spend on equipment can be heavily influenced by international supply and demand, as well as currency fluctuations.

BEST PROSPECTS:

- Technology that allow remote access to or control of agricultural functions
- Equipment that automates agricultural tasks that are currently manual
- Water management devices or tools for agriculturists, particularly self propelled sprayers
- Precision farming and farm management tools
- Grain drying, processing and storage equipment
- Heavy equipment such as balers, ploughs, cultivators and seeds – seasonally dependent

EQUIPMENT SOURCING & PURCHASING:

- Many farm purchases are made on an irregular basis. Larger equipment purchases will tend to be put off in lean years, with more purchases made following a boom year. Like farmers, machinery and equipment dealers are affected by prevailing weather patterns and subsequent crop yields.
- Australian agricultural producers generally do not buy off product specifications - there is a definite preference for viewing and in some cases trying equipment before buying it.
- There is a significant amount of peer review in the buying decision, whereby local agriculturalists consult with others in their industry about what tends to work.
- The above two points have resulted in the proliferation of farm exhibitions and trade shows held about the country on an annual basis. These events allow equipment buyers to not only look at a large range of equipment in the one place, but the opportunity to speak with other users.
- Given the spread of the agricultural industry across Australia, product distribution and support can be a complex issue – and one of the primary purchasing concerns.
- Several large wholesaling groups covering a range of smaller agricultural equipment and chemicals have evolved to address the distribution issue, with the two largest being Elders and Landmark.

- Larger equipment such as tractors, harvesters and tillage equipment are brokered by individual equipment dealers, who often cover several brands. Regional centers with agricultural activity and more than 5,000 residents might have 1 or 2 equipment dealers, with more dealers in larger centers.
- Equipment dealers can be reluctant to upset their existing suppliers by introducing competitor products, given the level of co-branding and marketing support they receive from larger suppliers.

MARKET ACCESS:

- There are no quota limits on the import of agricultural equipment into Australia
- Currently tariffs on this kind of equipment are between 0% and 5%, although the expected introduction of the U.S. /Australia FTA would reduce all tariffs to 0% on 1 January 2005
- Australia has a goods and services tax of 10% on all equipment inclusive of landed costs and duties that might be payable.
- Tractors and other heavy machinery imported into Australia may be required to comply with local standards including safety and transportation.

MARKET ENTRY:

We recommend that U.S. businesses with agricultural equipment opportunities undertake some research before considering entry to the Australian market. There is a significant amount of competition for standard equipment, with many of these competitors being well-positioned US companies having a significant history in Australia. Despite this Australian farmers are often very receptive to new concepts and product innovations. The U.S. Commercial Service is able to canvass a large number of local contacts to assessing the attractiveness of new products to the local market.

In many instances US companies will be looking for an Australian distributor or sales agent, as opposed to setting up operations. Whilst some agricultural pursuits and hence products are localized (e.g. sugar cane in Queensland), many segments of agribusiness are dispersed across Australia. This can present problems in reaching and servicing potential users of equipment. The Commercial Service is able to provide assistance in locating distributors that more likely suit a particular piece of equipment through our partner searches.

For companies with a strong interest in supplying the Australian agricultural market, we suggest attending a local trade show presents an excellent opportunity to showcase your own product, as well as view competitor products. The Commercial Service is happy to recommend and assist with international visitors to Australian trade shows and expos.

The following table presents a brief listing of some of the more popular trade shows and events.

Show	Location	Date	Exhibitors	Visitors	Website
Wimmera Field Days	Horsham, VIC	1 March 2005	600	35,000	www.wmfd.com
Southeast Field Annual Field Days	Lucindale, SA	18 March 2005	500	25,000	www.southeastfielddays.com.au
Farmworld	Warragul, VIC	14 April 2005	800	60,000	www.thegfd.com.au
Ag-Fest	Launceston, TAS	5 May 2005	700	75,000	www.agfest.com.au

Agquip	Gunnedah, NSW	22 August 2005	2,000	100,000	www.agquip.com.au
Dowerin Field Day	Dowerin, WA	30 August 2005	600	45,000	www.dowerinfielddays.com
Heritage Ag Show	Towoomba, QLD	September 2005	600		www.agshow.com.au
Henty Machinery Field Days	Henty, NSW	September 2005	650	50,000	www.hmfd.com.au
Elmore Field Day	Elmore, VIC	October 2005	600		www.elmorefielddays.com.au

OTHER RESOURCES:

- National Farmers Federation of Australia - www.nff.org.au
- State Based Farmers Federations i.e. Victorian Farmers Federation - www.vff.org.au
- Australian Government Department of Agriculture, Fisheries and Forestry – www.affa.gov.au
- Australian Bureau of Agricultural and Resource Economics – www.abare.org.au

CONTACT US:

If you would like to discuss your agricultural equipment queries or would like any other information on the Australian farming industry, we would love to hear from you. Please contact John McCaffrey, Commercial Specialist responsible for these sectors at:

john.mccaffrey@mail.doc.gov. In addition, please visit our website to discover latest commercial developments in the Australian agriculture market: www.buyusa.gov/australia